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The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

NIC #05196-85/1
21 October 1985

MEMORANDUM FOR: Distribution

FROM: Carl W. Ford, Jr.
National Intelligence Officer for East Asia

SUBJECT: East Asia Warning and Forecast Meeting of 16 October 1985

1. Representatives of the Intelligence Community met on 16 October 1985 to consider the attached subjects.

2. Next month's Warning and Forecast Meeting will be held on Wednesday, 13 November 1985 at 1400 hours in Room 7E62, CIA Headquarters. Recommendations for discussion/warning topics should be forwarded to this office by COB 1 November 1985.

3. Attendees from outside agencies are advised to arrive early to avoid parking problems created by construction work. Please enter the compound through Gate 1, the Route 123 entrance. Please telephone attendance intentions to [redacted] and have your clearances verified to us by your security office by COB 8 November 1985.

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Carl W. Ford, Jr.

Attachment

16 October 1985 Warning Report

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NIC #05196-85
21 October 1985

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA: National Intelligence Officer for Warning

FROM: Carl W. Ford, Jr.
National Intelligence Officer for East Asia

SUBJECT: 16 October 1985 East Asia Warning and Forecast Meeting

Leadership Changes During the Recent Chinese Communist Party Conference

1. While leadership changes announced during the conference cannot be characterized a complete success for the reformers, Deng Xiaoping and his followers significantly improved their grip on the levers of power.

- The old guard was weakened by the removal of many of their numbers;
- The succession process was strengthened by placement of reformists in key positions; and
- The military was distanced from decisionmaking by removal of many PLA members from the Politburo and Central Committee.

In the context of these changes, Deng and the reformers received their second strong endorsement of economic reforms in one year.

2. This progress was not without its constraints. Clearly, compromise was required to effect these changes and the conservative (Marxist) tone of the speeches during the conference are testimony to the strength of those conservatives remaining on the Politburo and Central Committee.

Forecast

Reforms will probably continue to be couched in conservative terms frequently spruced up with Marxist terminology. The economic line nevertheless seems set, and a period of leadership consolidation appears most likely. There may be some rear guard action by the remaining conservatives; however, the overall outlook is very bright for Deng and his followers during the near term.

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Indonesian Political Developments

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[redacted] a calm situation with the Soeharto government clearly in charge and little evidence of the anxieties [redacted] Student off-campus activism was up, but it was not taking an overtly anti-regime course. Corruption, though acknowledged to be growing, was only perceived as crossing an unacceptable threshold in certain first family cases. Military support for the regime remains firm. [redacted] the unrest in the previous year [redacted] stemmed from concern amongst the population over the greed being exhibited by certain first family members and was not really an anti-Chinese campaign. [redacted]

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[redacted] conditions in Indonesia during the coming year would remain calm in the near term unless there was a serious downturn in the economy, which is unlikely. Although Indonesia's \$10 billion reserves could buffer it for a while in the face of the current worldwide economic slump and the flat oil markets, the government deficit of \$500 million last year is expected to rise to \$1 billion this year because of reduced oil earnings. This trend could quickly become more serious and prompt sharp spending cuts or foreign borrowing.

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How Serious is the Economic Slowdown in the Newly Industrialized Countries of Asia?

The economies of Singapore, Hong Kong, Taiwan and South Korea are heavily dependent on exports. Twenty percent of the GNP of these newly industrialized countries comes from exports to the United States. So far

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this year, exports are only up 5 percent compared to 30 percent last year. In some cases, exports declined. Because export economies are tied so closely to economic conditions in the US, the current slowdown here is negatively affecting the NIC economies. Furthermore, because these four countries have tied their currency to the dollar, the strong dollar has made their exports even less competitive in the world market. The above four countries are trying a variety of ways to combat their problem; loans to stimulate trade, modified tax policies, etc. In the case of Taiwan, internal domestic problems exacerbate the trade problem.

Forecast

At best, the growth rate in the coming year for these four newly industrialized countries will be 3 percent, compared to over 7 percent average over the last four years. If draconian trade legislation such as the Jenkins Bill were to become law, it would result in approximately a one-third cut in the textile exports of these countries and this, in turn, would have a devastating impact on their economies.



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